

New Hampshire College Tuition Savings Plan Advisory Commission
Minutes of the Meeting of May 21, 2018

The May 21, 2018 meeting of the New Hampshire College Tuition Savings Plan Advisory Commission (“Advisory Commission”), held at the offices of the New Hampshire Higher Education Assistance Foundation in Concord, was called to order at 10:00 a.m. by Dr. Edward MacKay, Advisory Commission Chair.

Members present, constituting a quorum, were:

Edward MacKay (Chair)	Public Member, appointed by the Governor; Retired Chancellor, University System of New Hampshire
Tori Berube	Vice President, representing the NH Higher Education Assistance Foundation Organizations
Michael Cryans	Public Member, appointed by the Governor
Bill Dwyer	State Treasurer
Lou D’Allesandro	State Senator
Sylvia Larsen	Representing the Governor; Retired State Senator
Todd Leach	Chancellor, University System of New Hampshire
Peter Leishman	State Representative
Michael Vlacich	President & CEO, representing the New Hampshire College and University Council (“NHCUC”)
Kenneth Weyler	State Representative

Members absent were:

Ross Gittell	Chancellor, Community College System of New Hampshire (“CCSNH”)
Daniel Innis	State Senator
David Mahoney	Representing the Higher Education Commission – Dept. of Education

Also present at the meeting were Melissa Ridolfi, Ron Hazel, and Justin Rozzero from Fidelity Investments (“Fidelity”), Charles Ansell from CCSNH, as well as Monica Mezzapelle from the New Hampshire State Treasury.

Review of Prior Meeting Minutes

Minutes of the March 5, 2018 meeting were distributed in advance and presented for approval by Dr. MacKay. Treasurer Dwyer publicly thanked Ms. Mezzapelle for her work on completing the meeting minutes and for publish them timely as required by RSA 91-A. Hearing no additional comments or corrections, Dr. MacKay requested a motion to approve the March 5, 2018 meeting minutes. Senator D’Allesandro moved, Mr. Cryans seconded. The motion carried unanimously.

Update of Endowment Trust Fund and Scholarship Disbursements

Treasurer Dwyer provided an update of the Endowment Trust Fund and Scholarship Disbursements for quarter ending March 31, 2018 stating that through March 31, 2018, the endowment trust fund received assessment revenues from Fidelity of over \$10.9 million and had total disbursements of approximately \$10.2 million. Treasury Dwyer added that based on the revenue collected through May 2018, it appears actual revenues will exceed the original budgeted amount by \$1.5 million. Presumably, due to lower revenue expectations by Fidelity back in December of 2016, which changed as a result of the equity market performance in 2018. The fiscal year 2018 budget was developed using such revenue projections.

In July of 2017, the State Treasury distributed \$1 million in allocations to colleges and universities participating in the UNIQUE Annual Allocation program and it is now receiving reimbursement requests from those institutions who granted scholarships to eligible NH students in excess of the initial allocation amount. Treasury anticipates that approximately \$1.8 million in reimbursements will be paid before June 30. The UNIQUE Endowment Allocation Program also distributed nearly \$8.8 million in allocation funds to participating institution endowments.

Through the third quarter of fiscal year 2018, administrative expenses totaled \$405,537, consisting primarily of audit costs paid to PricewaterhouseCoopers (“PwC”) for the audits of the two 529 plans (\$327,720). The remaining administrative costs consisted of: 1) the endowment trust fund investment management fees of \$7,226, 2) the quarterly Treasury overhead allocations of \$27,756, 3) annual membership dues paid to the College Savings Plan Network and College Savings Foundation, combined, of \$6,600, 4) the yearly administrative support payment to the NH Division of Higher Education for \$36,000, and 5) miscellaneous expenses of \$235.

Furthermore, since program inception, the endowment trust fund has collected approximately \$155.6 million in assessment revenues and has disbursed over \$121.1 million in scholarship funds.

Discussion Whether to Maintain the Current 80% Allocation of Revenues to the UNIQUE Endowment Allocation Program

Treasurer Dwyer summarized the discussion that began during the March 5th meeting regarding the UNIQUE Endowment Allocation Program, which pursuant to administrative rules Csp 700, 80% of the assessment revenues the Advisory Commission receives from the 529 Plans is to be credited to this program. Treasurer Dwyer mentioned that the purpose of this discussion is to emphasize the Advisory Commission’s authority and ability to adjust the Endowment Allocation %, through an administrative rule change, and thereby increase flexibility for awards under the UNIQUE Annual Allocation Program.

Treasurer Dwyer then directed Commission members to a Sensitivity Analysis included in the meeting materials, which was prepared using the proposed fiscal year 2019 budget. The Sensitivity Analysis demonstrated that for each 5% change in the Endowment Allocation %, the amount of dollars intended for institution endowments would decrease by approximately \$700,000. Furthermore, at the 80% level (current allocation), a deficit of approximately \$250,000 is again projected for the Endowment Trust Fund; however, at the hypothetical 75% and 70%

levels, the Endowment Trust Fund would generate a surplus of approximately \$500,000 and \$1.2 million, respectively. Treasurer Dwyer continued indicating that based on a Cash Flow Forecast State Treasury maintains, the Endowment Trust Fund is expected to conclude the fiscal year with a \$2.2 million balance, which is the lowest balance the Trust Fund has experienced since fiscal year 2003. Another document requested by the Advisory Commission during the March 5th meeting and included in the materials was a Full-time and Part-time Award Analysis of the UNIQUE Annual Allocation program. The Analysis contained actual full-time and part-time award activity by institution covering the last three academic years (including current 2018-17), which revealed a decline in part-time awards. Dr. MacKay added that due to such decrease in UNIQUE Annual Awards, the budget amount of \$3.2 million ended up being overstated by approximately \$400,000, resulting in total program disbursements of about \$2.8 million -- through May 15, 2018, actual reimbursements requests submitted by participating institutions were approximately \$1.8 million. Treasurer Dwyer also mentioned that college and university endowments have grown significantly and, in the last few academic years (as reported in the semi-annual Dashboard Report), endowments have distributed more scholarship funds to NH students than the UNIQUE Annual Allocation Program. Lastly, Treasurer Dwyer shared a report he obtained from another Board he serves on, which captured data on public enrollment of NH students. The report exhibited a decline in public enrollment from 2007 to 2015, continuing the trend through 2025 based on forecasted data; public enrollment of NH students is expected to rise again in 2030.

Dr. MacKay explained to Commission members that based on the Endowment Trust Fund positive performance (higher revenues and lower program disbursements) and projections presented by Treasurer Dwyer, it appears that fiscal year 2019 obligations will be met as planned; however, information provided was also intended to evaluate the subsequent year because there is a 6-9-month lag time to change the allocation percentage through the administrative rules process. Dr. MacKay continued indicating that based on the data provided, the Advisory Commission could consider increasing the individual award amount from \$800 to \$1,000, which could potentially deplete the Endowment Trust Fund to \$1.5 million (level at which the Advisory Commission was comfortable reaching last year), and essentially meet both objectives: continue funding institutions endowments for long-term scholarship funding and provide short-term aid to NH students through the UNIQUE Annual Allocation Program. Several Commission members supported the idea of a higher individual award to attract more NH residents to stay and enroll in NH institutions.

After an engaged discussion by Advisory Commission members, no action was taken during this meeting. Dr. MacKay thanked Treasurer Dwyer and Ms. Mezzapelle for the information provided.

Fiscal Year 2019 College Savings Program Budget Review

During the UNIQUE Endowment Allocation % discussion, Treasurer Dwyer covered the details of the proposed Fiscal Year 2019 budget, which included \$15.2 million in assessment revenues derived from projected assets in the two NH 529 plans (updated by Fidelity for the *12/31/2017 Dashboard Report* and presented to the Advisory Commission during the March 5th meeting). The

budget projects over \$10.6 million in revenue from the UNIQUE College Investing Plan (typically 70% of total revenue) and over \$4.5 million in revenue from the Fidelity Advisor 529 Plan.

Budgeted program disbursements included \$12.1 million in UNIQUE endowment allocations (80% of \$15.2 million in revenue) and \$2.8 million in UNIQUE annual award allocations. The UNIQUE annual award amount is based on anticipated disbursements through June 30, 2018, since the Advisory Commission maintained the same eligibility criteria for fiscal year 2019. In addition, approximately \$434,000 are being reserved for administrative expenses to cover the two 529 Plan audits contracted with PwC, the endowment trust fund investment management fees, association dues, the quarterly Treasury overhead allocations, the administrative support paid to the NH Division of Higher Education, and miscellaneous expenses.

Dr. MacKay then requested a motion to approve the fiscal year 2019 budget as presented by Treasurer Dwyer. Mr. Cryans moved and Dr. Leach seconded. The budget was unanimously approved and adopted.

Overview of the 529 Programs

529 Industry Market Update

Mr. Hazel began the presentation with an overview of the 529 Industry during the first quarter of 2018 indicating that 529 assets increased by 1% from quarter four 2017 to quarter one 2018 and by 12% year over year. New Hampshire assets increased by 0.3% for the quarter and by 9.2% year over year, remaining as the fourth largest in the country with over \$17.2 billion in market-value assets -- 5.8% of market-share. Asset growth mirrored activity in the capital markets, as represented by the Dow Jones U.S. Total Stock Market Index, which for the quarter was down -0.6% and rose 13.8% for 1-year period ending March 31, 2018. In contrast, investment grade debt represented by the Barclays U.S. Aggregate Bond Index dropped -1.5% for the quarter and was up 1.2% for the 1-year period. The New Hampshire plans trailed Virginia (with \$67 billion in market value assets, managed by American Funds), New York (with \$28.6 billion in assets, managed by J.P. Morgan), and the Nevada plans (with \$23 billion in assets managed by multiple providers, including Vanguard).

Fidelity Advisor 529 Plan Review

Mr. Hazel continued with the update on the Advisor-sold 529 plan space stating that as of March 31, 2018, the 529 Advisor-sold plan assets increased by 0.7% during the quarter and by 9.8% year over year. Conversely, the FA 529 Plan assets decreased by -0.9% during the quarter, however, increased by 5.6% year over year. As of March 31, 2018, the FA 529 Plan had over \$4.7 billion of market-value assets under management, distributed across 183,218 participant accounts, representing 3.6% of the market-share. The FA 529 plan trails Virginia (\$62.5 billion in assets), Maine (\$9 billion in assets), Rhode Island (\$5.8 billion in assets), Ohio (\$5.3 billion in assets),

New York (\$5 billion in assets managed by J.P. Morgan), Alaska (\$5 billion in assets), and Illinois (\$5 billion in assets).

Mr. Hazel reported positive results, stating that new accounts in quarter one of 2018 climbed 21.7% compared to quarter four of 2017 and rose 21.4% compared to quarter one of 2017. On the contrary, in quarter one 2018 the Advisor-sold channel decreased -0.3% and increased 4.2% year over year. Through March 31, 2018, the FA 529 took in approximately \$94.9 million in contributions, an increase of 11.6% for the quarter and by 8.5% compared to quarter one of 2017. Distributions decreased -0.4% in quarter one 2018, consistent with the 529 plan distribution cycle, however increased by 6.3% compared to quarter one in 2017. Total distributions year-to-date were \$112.5 million. Mr. Hazel indicated that the positive results could be attributed to the recent changes implemented in the FA 529 plan such as the Class C to Class A share conversion, pricing changes, and other marketing initiatives.

During quarter one of 2018, the average account size of a FA 529 plan account was \$26,000, with New Hampshire residents averaging \$23,300.

Direct-sold (UNIQUE) 529 Plan Review

Mr. Rozzero provided an update on the Direct-sold 529 plan side during quarter one 2018. As of March 31, 2018, 529 Direct-sold Plan assets had increased by 1.3% from quarter four 2017 to quarter one 2018 and by 13.7% for the 1-year period. Similarly, the UNIQUE College Investing Plan asset growth rose 0.8% during the quarter and 10.6% year over year. The UNIQUE plan had over \$12.4 billion in market-value assets, representing 7.5% of market-share with 486,137 active accounts. The UNIQUE plan trailed New York (\$23.5 billion in assets, 14.1% of market-share), and the Nevada plans (3 separate plans, \$17.4 billion in assets, 10.5% of market-share).

Positive account growth continued during quarter one 2018 increasing by 6% compared to quarter four in 2017 and by 26% year over year. Mr. Rozzero highlighted that as far as new account growth, this was the best quarter one since 2002 and April of 2018 also looks strong, as it appears the best April since 2002. Quarter one contributions also increased by 12% compared to quarter four of 2017 and by 20% compared to quarter one of 2017. Contributions year-to-date were \$442.2 million. Mr. Rozzero indicated this was also the strongest quarter since inception regarding contributions. Distributions decreased in quarter one 2018 by 17% compared to the previous quarter; however, was up 6% year over year. Distributions year-to-date were \$241 million.

The average account balance in a UNIQUE account in quarter one 2018 was \$25,600, while New Hampshire residents averaged \$23,700. The average monthly contributions to new and existing accounts nationwide were \$3,800 and \$160, respectively, while New Hampshire participants in the UNIQUE plan contributed \$1,100 to new accounts and \$260 to existing accounts.

Mr. Rozzero also covered contributions from the 529 College Rewards program, adding nearly \$6 million into UNIQUE accounts, and the Online Gifting Tool with \$2.5 million in contributions

during quarter one 2018. This is due to the recent policy change which raised the maximum one-time contribution limit from \$2,500 to \$10,000 and there are plans to increase the limit to \$15,000 based on new federal gifting guidelines. From the marketing point of view, in addition to the *Ski NH* promotional events held during the NH school vacation week and the ongoing *Tinkering Lab Exhibit* at the Children’s Museum of New Hampshire in Dover, email communications were sent out to target the K-12 audience, as well as updates to the website, marketing brochures and materials were also done to support the effort.

Update of GEAR UP (Gaining Early Awareness and Readiness for Undergraduate Programs) New Hampshire Program

Dr. MacKay reported Debby Scire from Campus Compact had been surveying and soliciting information from other GEAR UP programs around the country on the potential ramifications if the UNIQUE Annual Awards were identified to satisfy the federal “matching” condition and subsequently denied. The feedback so far has been that there would be no obligations on the part of the state or the Commission. The matter is currently being evaluated by the Attorney General’s office and Treasury will report back once there is more information to share.

Mr. Vlacich commented on the progress of the program indicating that the program is going well and one of the upcoming initiatives is a campaign with WMUR to promote young NH students to stay and go to school in NH, in line with the conversation Commission members had earlier in the meeting. Regarding the GEAR UP matching request, Mr. Vlacich stated that there are no immediate concerns to finalize the “matching” obligation and he would notify the Commission if that were to change.

The NHCUC and Campus Compact are the recipients of the federal GEAR UP grant. The GEAR UP program intends to significantly increase the number of low-income and underrepresented students who are prepared to enter and succeed in postsecondary education. A cohort of seventh grade students from seven school districts in the North Country have been identified to participate in the program. GEAR UP New Hampshire will receive \$1.6 million annually for a period of seven years; \$1 million is to be invested and kept in a trust until students selected attend postsecondary education and the remaining funds are to be used to promote the mission of the program.

Other Business

Dr. MacKay briefly commented on the final outcome of the Children’s Saving Account legislative initiative during the 2018 legislative session stating that the proposal had a lot of support, however at the end it was sent to interim study. This program intends to raise the aspirations of second graders by providing early financial literacy to encourage attendance to postsecondary education. Rep. Weyler also mentioned that a recent report prepared by the Legislative Budget Assistant indicated that the education trust fund revenue exceeded fiscal year 2018 projections by \$90 million and it could result in having approximately \$60 million remaining in the education trust

fund at the end of the fiscal year. Consequently, during the 2019 legislative session, legislators might have the opportunity to review education programs and projects that were not possible in the past and the Children's Savings Account program could be one of those projects.

Senator D'Allesandro also mentioned that NHCUC was having the NH Scholars Day on May 31st to celebrate the approximately 5,000 students who successfully completed the NH Scholars Program. In response to Dr. MacKay's question, Ms. Berube indicated that all but one high school in NH participate in the NH Scholars Program.

Hearing no additional new business, Dr. MacKay adjourned the meeting at 11:10 a.m.

NOTE: The next regular meeting is scheduled for Monday, August 20, 2018 beginning at 10:00 a.m. at the New Hampshire Higher Education Assistance Foundation in Concord. An Investment Committee meeting will precede the regular meeting beginning at 9:00 a.m.